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## India

## Coffee

## Annual

## 2008

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**Report Highlights:**

Despite unseasonal rains during the blossoming stage, India's MY 2008/09 coffee production is forecast to increase by nine percent from the rain ravaged MY 2007/08 crop at 285,000 tons (4.8 million 60-kg bags). Domestic coffee consumption is growing, propelled by the spread of coffee consumption in non-traditional regions and the growing coffee-shop culture throughout major cities. Higher production, the recent weakening of the Indian rupee against the U.S. dollar and the government's recent export incentives should all support larger MY 2008/09 coffee exports, forecast at 240,000 tons.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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## SECTION I – SITUATION AND OUTLOOK

Table 1: Commodity, Coffee, Green, PSD

Coffee, Green India	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed	New Post		Annual Data Displayed	New Post		Annual Data Displayed	May	
		Data			Data			Data	
Area Planted	355	355	381	0		384		387	(1000 HA)
Area Harvested	329	329	343	0		342		343	(1000 HA)
Bearing Trees	545	545	545	0		550		555	(MILLION TREES)
Non-Bearing Trees	75	75	75	0		75		70	(MILLION TREES)
Total Tree Population	620	620	620	0		625		625	(MILLION TREES)
Beginning Stocks	1812	931	1812	2564		2228		1981	(1000 60 KG BAGS)
Arabica Production	1615	1415	1662	1600		1542		1583	(1000 60 KG BAGS)
Robusta Production	3135	3250	3138	3050		2825		3167	(1000 60 KG BAGS)
Other Production	0	0	0	0		0		0	(1000 60 KG BAGS)
Total Production	4750	4665	4800	4650		4367		4750	(1000 60 KG BAGS)
Bean Imports	400	400	700	400		700		700	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0		0		0	(1000 60 KG BAGS)
Soluble Imports	10	0	0	10		0		0	(1000 60 KG BAGS)
Total Imports	410	400	700	410		700		700	(1000 60 KG BAGS)
Total Supply	6972	5996	7312	7624		7295		7431	(1000 60 KG BAGS)
Bean Exports	2669	2500	2598	3400		2720		2850	(1000 60 KG BAGS)
Rst-Grnd Exp.	2	5	7	2		10		10	(1000 60 KG BAGS)
Soluble Exports	400	950	1059	400		1100		1140	(1000 60 KG BAGS)
Total Exports	3071	3455	3664	3802		3830		4000	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	1097	1200	1170	1097		1224		1300	(1000 60 KG BAGS)
Soluble Dom. Cons.	240	240	250	240		260		280	(1000 60 KG BAGS)
Domestic Use	1337	1440	1420	1337		1484		1580	(1000 60 KG BAGS)
Ending Stocks	2564	1101	2228	2485		1981		1851	(1000 60 KG BAGS)
Total Distribution	6972	5996	7312	7624		7295		7431	(1000 60 KG BAGS)

## PRODUCTION

Unprecedented heavy rains in March, coinciding with the blossoming of the coffee crop, somewhat dimmed the otherwise bright prospect for MY 2008/09 coffee production. Assuming normal monsoon rains this summer, Post forecasts MY 2008/09 (Oct-Sep) coffee production at 285,000 tons (4.8 million 60-kg bags), about 9 percent higher than the rain ravaged MY 2007/08 crop of 262,000 tons (4.4 million bags). Last year, rains occurred during the harvest time, which resulted in significant quantity and quality losses, both in the standing and harvested crop. The MY 2008/09 crop is forecast to include 190,000 tons of Robusta and 95,000 tons of Arabica, compared with 169,500 tons of Robusta and 92,500 tons of Arabica in MY 2007/08. Likely higher input use (fertilizers, pesticides, etc.), and better management practices by growers in response to high coffee prices in MY 2007/08 support this higher production forecast.

Area planted to coffee has shown some increase in recent years, mostly due to expansion of coffee cultivation in the non-traditional but low-yielding areas of Andhra Pradesh and Orissa. While the spread of the white stem borer, a destructive coffee pest in the Arabica crop, has been contained to some extent by better agronomic practices, it has not yet been completely eradicated. To contain the white stem borer menace, there was some uprooting of infected trees and replanting with new in the Arabica belt, which are yet to come into the full bearing stage. Therefore, the bearing area is lower than the planted area.

The instant/soluble coffee segment is almost entirely branded and packaged, and is dominated by two multinationals, namely Nestle and Unilever, and the Indian conglomerate Tata Group. In recent years three other Indian companies have made a foray into this segment with limited success. Total instant coffee production is estimated at around 75,000 tons, a major share of which is exported. Organic coffee production is miniscule at around 300 tons due to the absence of a significant premium over non-organic coffee.

India accounts for about four percent of world coffee production and exports. Production is mostly confined to the southern states of Karnataka, Kerala, and Tamil Nadu. Approximately 5 million people depend on the industry for their livelihood, including nearly 580,000 plantation laborers. Almost 99 percent of the total 221,000 coffee holdings are less than 10 hectares, and account for 75 percent of the production, while larger estates (over 10 hectares) account for 25 percent of production. With off-farm employment opportunities increasing, coffee planters have started experiencing shortages of skilled labor, which could become a major problem in coming years. Mechanization in coffee plantations is difficult in India because of geographical constraints and uneven plantings. High coffee prices in recent years have discouraged the trend towards diversification to competing crops such as vanilla, which are more labor intensive.

## CONSUMPTION

Domestic consumption has shown some growth in recent years, propelled by the spread of coffee drinking in non-traditional regions and the growing coffee-shop culture throughout major cities. According to Indian Coffee Board statistics, coffee consumption in India is growing by around 5,000 tons (6%) annually, with estimated consumption at 90,000 tons in 2007. The Coffee Board, supported by the International Coffee Organization (IOC), is now placing greater emphasis on boosting domestic coffee consumption through generic promotions, projecting coffee as a healthy drink. However, coffee consumption continues to face stiff competition from tea (the most popular drink in India), soft drinks, and fruit juices.

Traditionally, coffee consumption in India has been confined to southern states. According to a survey commissioned by the Coffee Board, 80 percent of coffee consumption is in south

India and only 20 percent in north India. Forty percent of coffee consumers are occasional coffee drinkers. Average coffee consumption in India is low, at 10 cups per person annually. Currently, there are several large companies offering a wide array of coffee mixes and preparations, which are increasingly popular among the growing number of high-income consumers, especially affluent young people. Coffee powder is traditionally blended with chicory powder (root of a perennial plant) to make the coffee stronger, with the chicory content in some brands as high as the maximum limit of 49 percent permitted under the Prevention of Food Adulteration Act (PFA). However, the PFA does not permit the use of flavors in packaged coffee, as any additive to coffee (except chicory) is treated as an adulterant. This has restricted innovation in coffee-based products; a change in such PFA clauses could lead to growth through new products in the domestic market.

The indicative Bangalore wholesale price of Arabica Plantation "A" was Rs. 135 per kilogram (\$1.50 per pound), and Robusta Cherry "AB" was Rs. 99 per kilogram (\$1.1 per pound) in February 2008, compared with last year's prices of Rs. 136 and Rs. 80 per kilogram for Arabica and Robusta, respectively. The retail price of pure grind coffee (Arabica plantation) in major southern cities is around Rs. 200 per kilogram (\$2.26 per pound), which has remained more or less unchanged over the past one year. (\$1 = 40 Rs.)

## TRADE

Coffee exports in MY 2008/09 are forecast at around 240,000 tons, marginally higher than estimated MY 2007/08 exports of around 230,000 tons. Forecasted higher production, recent weakening of Indian rupee against the U.S. dollar and the government's recent export incentives (see Policy section) should benefit coffee exports. On a calendar year basis, exports in 2007 were 214,243 tons, compared with 244,990 tons in 2006. Exports of instant coffee are showing an upward trend; and reached 64,830 tons (30 percent of total exports) in CY 2007 compared with 54,831 tons in CY 2006.

India accounts for about four percent of world coffee trade. Top destination markets for Indian coffee are Italy, Russia, Germany, Belgium, Spain, Finland, Ukraine, Greece, and Slovenia. Russia is the largest importer of Indian instant coffee, importing around 25,000 tons in CY 2007. Coffee exports to the United States in CY 2007 were around 4,000 tons, marginally lower than CY 2006 exports. Cheaper coffee from South America and higher freight costs from India to the United States are reported to be stumbling blocks for increased Indian exports to the United States. India's exports of specialty coffee (mostly Monsooned coffee and Robust Coffee Royale) are growing, reaching around 9,600 tons in MY 2006/07.

Imports of cheaper coffee mostly from Vietnam and Indonesia by Indian "100 percent Export Oriented Units" at a zero duty, for value addition and re-export, have increased significantly in recent years. Imports in IFY 2005/06 were around 38,000 tons.

## STOCKS

There is likely to be a decline in carry over stocks of coffee in MY 2007/08 because of lower production, increasing domestic consumption, and large exports.

## MARKETING

The increasing presence of modern espresso coffee bars such as Barista Coffee and Café Coffee Day, in major cities provides an opportunity for U.S. companies to supply products such as syrups, specialty coffees, and other ingredients. These coffee bars, with a young

affluent clientele, also supply food items, and could provide a platform for promoting high value U.S. food items such as almonds, pistachios, and other food ingredients.

The Indian Coffee Board in association with coffee industry stakeholders including growers, roasters and exporters is hosting an India International Coffee Festival 2009 in Bangalore on March 5-8, 2009. This event provides an opportunity for U.S. coffee equipment manufacturers, ingredient companies, and other stake holders to interact with Indian coffee companies and marketing organizations to explore opportunities in the coffee business in India.

## POLICY

In order to partially offset the impact of the strong Indian rupee against the U.S. dollar on Indian coffee exports, the Ministry of Commerce included coffee in the list of products eligible for the duty entitlement passbook (DEPB) scheme and the *Vishesh Krishi Upaj Yojana* (VKUY). The objective of DEPB is to neutralize the incidence of the customs duty on the import content of the export product, by granting duty credit against the export product. The duty credit (4% of the FOB value in the case coffee) can be used for imports of raw materials, intermediates, components, parts, packaging material etc. and is tradable. Duty Credit is also given under the VKUY, which may be used for the import of inputs or goods including capital goods, as may be notified by the government.

The following table shows the import duty structure for coffee and related products:

**Table 2: Import duty on coffee and related products**

H.S. Code	Product description	Basic duty	Applied duty
0901.11	Coffee neither roasted nor decaffeinated	100%	100%
0901.12	Coffee not roasted decaffeinated	100%	100%
0901.21	Coffee roasted not decaffeinated	100%	100%
0901.22	Coffee roasted and decaffeinated	100%	100%
2101.11.10	Instant coffee flavored	30%	56.217%
2101.11.20	Instant coffee not flavored	30%	56.217%
2101.11.30	Coffee Aroma	30%	56.217%
2101.11.90	Others	30%	56.217%
2101.12.00	Preparations with a basis of extracts, essences or concentrates with a basis of coffee	30%	56.217%

Table 3: Commodity, Coffee, Green, Export Trade Matrix

<b>Export Trade Matrix</b>			
<b>Country</b>	India		
<b>Commodity</b>	Coffee, Green		
Time Period	Jan-Dec	Units:	Metric Ton
Exports for:	2006		2007
U.S.	4,185	U.S.	3,887
Others		Others	
Italy	63,665	Italy	52,386
Germany	26,251	Russian Federation	28,155
Russian Federation	25,068	Germany	11,765
Belgium	15,173	Belgium	9,342
Spain	11,358	Spain	8,874
Slovenia	8,123	Finland	6,961
Ukraine	7,590	Greece	5,911
Greece	5,710	Slovenia	5,849
Japan	5,483	Ukraine	5,761
Finland	5,287	Croatia	4,464
Total for Others	173,708		139,468
Others not Listed	67,097		70,888
Grand Total	244,990		214,243

Table 4: Commodity, Coffee, Green, Prices Table

<b>Prices Table</b>			
<b>Country</b>	India		
<b>Commodity</b>	Coffee, Green		
Prices in	Rupees	per uom	50 Kg
Year	2006	2007	% Change
Jan	5,298	6,015	14%
Feb	5,483	5,912	8%
Mar	5,126	5,744	12%
Apr	5,207	5,715	10%
May	5,253	5,528	5%
Jun	5,025	5,534	10%
Jul	5,101	5,380	5%
Aug	5,326	5,375	1%
Sep	6,087	5,668	-7%
Oct	6,153	5,760	-6%
Nov	5,867	5,468	-7%
Dec	5,977	5,523	-8%
Exchange Rate	42	Local Currency/US \$	
Date of Quote	5/14/08	MM/DD/YYYY	
Auction price in ICTA Bangalore for Arabica, Plantation 'A'			